The substantive economy of money: Karl Polanyi in the tradition of "old institutionalism"

Jérôme Maucourant

THE SUBSTANTIVE ECONOMY OF MONEY
—KARL POLANYI IN THE TRADITION OF "*OLD*" INSTITUTIONALISM—

Introduction

The purpose of this contribution is to suggest an interpretation of substantivist thought initiated by Karl Polanyi. An approach such as this is concerned with “historical economics”, in the precise sense that substantive concepts do not come from a retrospective projection of modern prejudgements, but rather from an attempt to apprehend universal categories of economic analysis in order to clarify the genuine singularities of different economic systems[1]. In doing this I shall highlight the coherence of institutionalist thought[2] founded by economists such as Mitchell, Commons and Veblen, into which the reflections of Karl Polanyi fit. In this way, Polanyi thinks of money as an institution that submerges the economy into social relationships. As an analytical result, stripping money of its institutional character and trying to reduce it to a commodity, can only create chaos.

In order to give an account of Polanyi's project, I will show, in the first part of my analysis, how Polanyi wants to move away from the idea that economy is created on pure rational logic.As a result, economy owes its very existence to "*institutionalised processes*" which produce the very inflexibilities necessary for both collective and individual action. Taking this into account, it is impossible to presuppose the unity of *“the cattalactic triad*” *i. e.* external trade, money and markets.

From this point on, it is possible, in the second part of this analysis, to specify certain interesting results for the economic history of money. From a transhistorical viewpoint, this institution sets the rules for the quantification and extinction of debts. However, in contrast to modern money, archaic money is characterised by a separation of functions which compel us to talk about *“money uses”*. Consequently, it is better to speak in terms of accounting and payment practises rather than using the single word of “money”. Furthermore, the independence of money in relation to market is a characteristic of numerous archaic societies. Nevertheless, in spite of their differences, both ancient and modern monies politically produce social integration.

---

[1]We are aware that since Polanyi's latest works, there has been series of contributions which have enriched the debate (see for instance, North [1980], Silver [1983] and [1985], Mayhew & *alii* [1985] and Janssen [1975, p. 560] amongst others). This point of view concerns the history of ideas. But we can hope that the history of ideas is also able to put forward arguments in the controversy concerning the analysis of ancient economic facts. See Gentet & Maucourant [1991, b]. We may also notice that the richness of Polanyi's approach is taken into account beyond strict heterodoxical works [Orlean, 1992].

[2]Maucourant [1994, b].

First Part - The Purpose of a Substantive Economy

§1/ Karl Polanyi's Method : a point of view

Karl Polanyi defines *"formal economics"* as the pure reign of calculating reason in the context of scarcity of goods when the ends are given. Karl Polanyi is more interested in studying the capacity of power relations and values in order to *institute* a certain number of economic practices[3]. In this way, Polanyi presupposes that economic activity is not isolated, and that institutional analysis remains a way of carrying out economic reflections. One should note that there is no reason to deny the hypothesis that individual rationality has a large field of effectiveness and, as a result, to imagine the existence of a totality that is radically independent from its component parts. The determinisms resulting from individual interest are not neglected by Polanyi, a factor which once again brings him closer to Commons[4] : according to both authors, political authority intervenes as a result of the reaction of individual interests that are threatened in a convergent manner. Taking the case of tribal society into consideration which is largely founded on gift and counter-gift, Polanyi further remarks that[5] :

"*the premium set on generosity is so great when measured in terms of social prestige as to make any other behavior that of utter selforgetfulness simply not pass*".

Modern anthropology invalidates fantasies that are connected to *"the communist psychology of savages"*[6] ; man has always aimed at maximising his social interests[7] :

"*Aristotle was right : man is not an economic, but a social being. He does not aim at safeguarding his individual interest in the acquisition of material possessions but rather at ensuring social good will, social status, social assets. Man's economy is, as a rule, submerged in his social relations*".

More generally, the hypothesis which states that institutional constraints structure behaviour does not contradict the idea that self-interest is the driving force behind action, provided that one acknowledges the nature of the ends prescribed by the institution. As a result, individual interests are not autonomous.

Therefore the embeddedness hypothesis in social ties calls for the redefinition of the field of economy. Indeed, one has surrepticiously introduced the impossibility of the "enclosure" of the economic field, a factor which implicitly amounts to a definition of economy as a social subsystem. Actually, a science of action with a pure rational purpose could, theoretically, urge us to describe *all*

---

[3]In this respect money as an institution is a device that institutes a "*public purpose*" into economy. such as Commons stated. According to him, if McLeod is the initiator of institutional economics, it is because of his penetrating analysis of the "commoditisation" of debt, and above all because of the idea that the central bank must eventually go against private banks. If we consider now Mitchell's study of the progress of money economy in England, one must note the importance of the State and power relations in this process (*cf.* Rutherford *in* Mitchell [1996] and Mitchell [1996]). Actually, it is not evident that the lowering of transactions costs, which is allowed by the growing use of money, is spontaneous (*cf.* the case of Africa analysed by Servet [1994, b]).

[4]*Cf.* Neale [1990, p. 147].

[5]Polanyi [1957, c, p. 46].

[6]Polanyi [1968, p. 65]. Of course its the same for "*the myth of savage devoted to barter*" that comes from Smith [Polanyi, 1957, pp. 43-44] in which we find an archeology in Servet [1994, a].

[7]Polanyi [1968, p. 65].

behaviour as economic. Therefore, the question here is of restricting the possible scope of economics while introducing a degree of anthropological complexity.

§2 / Substantive Economy and the Question of Value

For Polanyi[8] :

"*The truth is that man has been very much the same all through history*"[9].

This concept allows us to advocate a definition of economy which incorporates the institutional varieties that stretch throughout history[10]. Carl Menger supplied Polanyi with a solution to this problem. In the 1923 German edition of his "*Principles*", Menger sets an "*economising direction*" - a characteristic of civilised societies - against a *"technical direction"* which only results from physical particularities of production[11]. He does this with the intention of safeguarding his *"Principles"* which would be challenged by later anthropological discoveries[12].

Thus Polanyi can suggest a definition that is substantive to economy, focusing upon the idea that the livelihood of man is not strictly determined by scarcity, in so far as custom or politics eliminate the choice of agent[13]. Only a specific institutional situation, that of price making markets, can completely reduce the substantive sense of economy to a formal sense of economy. In this case, a general state of scarcity exists as economic agents are able to make a infinite number of choices provided by markets.

Therefore one can say that Polanyi, following Aristotle, rejects the theory of utility-scarcity value. Indeed, Polanyi emancipates himself from the common postulate of an *"unquestionning acceptance of the sovereingty of individual wants"*[14] considerating the "*real*" human needs that Aristotle names "natural". Actually, Aristotle understands the social nature of scarcity, which must be distinguished from the obviousness of the *"finite state of things"*[15].

According to Aristotle, human choice and desires are not limitless because they had to be submitted to the civil imperative of an honourable life. The essence of life[16] according to Aristotle,

---

[8]Polanyi [1947, p. 99].

[9]Berthoud also highlights that hypothesis that the constancy of human nature entails a hypertrophy of the interest brought to institutions and to the cultural factor.

[10]One consequence of this anthropological constancy is that humanity could never construct its society in a lasting fashion using methods that are totally economically individualist or collectivist. Polanyi rightly observes that, in fact, since the oldest Antiquity, one knows always how to escape ideological dichotomies ; liberty *vs* bureaucracy and economic total planning *vs* market. On this subject, he cites the example of a mesopotamian trading corporation, of athenian customs of the classic age and of the kingdom of Dahomey in the 18th century [Polanyi, 1977, XLi].

[11]*Cf.* Polanyi [1977, pp. 22-23].

[12]One should note Polanyi's profound display of respect with regards to the marginalist school of thought, because, according to us, utalitarian behaviours result from the mental impregnation of market institutions. Mitchell already hold a viewpoint on *"money economy"* which is not far removed from from Polanyi's thinking [Maucourant, 1993, b]. Elsewhere, the influence of the Austrian school of marginal utility on Polanyi is certain in the socialist economic calculation debate. The future author of the *Grande Transformation* in 1922 is looking for an alternative to central planning which he considers impossible - as would his brother Mickael later [Polanyi, 1989, pp. 148-149]- and pure market economy that he asseses to be a source of wasting. One can find a presentation of this non-marxist criticism of capitalism in Rosner [1990] and Maucourant [1994, a] ; a translation in french Polanyi's text is available in Polanyi [1994]. To our knowledge a translation in English does not exist.

[13]*Cf.* Polanyi [1977, p. 27].

[14]*Cf.* Hodgson [1992, p. 436].

[15]Berthoud [1986, p. 67].

[16]Polanyi [1977, p. 30].

i. e. theatre, trials, politics and the contemplation of good, prohibits any type of effective economic accumulation. *A contrario,* the free display of pecuniary activity is contradictory to the “natural” order of the City which is based on three principles, self-sufficiency, community (resting on the value of living together, the *phylia*) and justice (in the sense that everyone receives that which is due to his “nature”)[17]. The fact that Aristotle has a substantive conception of economy explains his fear that economy could actually become removed from society. It is this fear that highlights his importance as an economic thinker[18].

It is clear that Polanyi, concerned about justice (in its modern and democratic form), national sovereignty and the permanence of social ties, is just as anxious as Aristotle could have been, when faced with developments of market which contradict the idea that the economy should be the embodiment of a human purpose. Thus, the liberal doctrine, which states that the law can do nothing but institute the means of action, and not the ends, is the antithesis of Polanyi's socialism[19]. In fact, in this type of socialism, democratic debate determines social ends. Polanyi's proximity to Veblen is just as strong. Both authors agree with the Aristotlian ethic that rejects the continual pursuit of ends that are constantly changing in consumption. Paradoxically the criterion of welfare of utilitarianism is this infinite multiplication of envious comparisons.

However, one should not forget the element that stops us making a direct filiation between Polanyi, Marx and Aristotle. Indeed, it would be wrong to think that Polanyi supports a radically objectivist conception of value. Perhaps, and here rests our hypothesis, Polanyi even wishes to emancipate himself from the paradigm of value in order to participate in a new paradigm built on the recognition of institutions as creators of economic values.

In the first place, even if the “real needs” of man are changing, a democratic deliberation concerning social needs can choose the preferred kind of technical progress. This is Polanyi's point of view in the 1922 model of federal socialism. In the second place, even if the ends of social activity should not be left, according to Polanyi, to a logic that is purely economic, it does not follow that every type of economic spontaneity should be abolished. He recognises the impossibility of central planning if division of labour is complex.

Consequently, this means that the evaluation of economic cost is not fundamentally a matter of statistical evaluation, but the result of an intersubjective process. The local and concrete activities of collectives of associated workers are the only means of examining the disutility of labour[20].

Elsewhere, central planning, which makes human economy a technique, is a non capitalist form of alienation, as, in taking responsability away from its producers, it denies the fact that ethics should be associated with labour[21]:

“*Humanity will not be free until it knows the cost of its ideals*”.

---

[17]Polanyi [1957 a, p. 79].

[18]According to Polanyi, Schumpeter, convinced that the distinctive nature of economic analysis is formalising scarcity mechanisms, cannot accept that.

[19]Maucourant [1993, a].

[20]Polanyi [1994, b & c].

[21]Polanyi [1994, a, p. 93].

Polanyi once again does not base that economy on value but on institutional theory which enables him to return to Commons's question of “reasonable value”. Beyond the objectivity of Marx and the subjectivity of Mises, Polanyi lies within institutionalism.

The illusion, which believes that value can exist outside an institutional “vestment" stems from a totally utilitarian idea, common to both marxists and liberals. This illusion states that an economy can exist in an autonomous way. More precisely the transformation that occured in the nineteenth century which aimed at instituting a waterfight “closure” of the economy through the establishment of *One Big Market* was, in fact, illusory.

§3 / Institutions and forms of integration : economy as an instituted process

A/An institutionnalist conception of institution

To place Karl Polanyi's work in institutionalism would signify that his contributions are lost for the contemporary economist : the idea of the existence of economic “laws”, that are radically independent to the rest of the social field, are in fact well spread. Nevertheless, it is clear that due to certain recent and comunally accepted developments in economic analysis, a certain number of doubts have arisen, thanks to the “*undersocialised*” view[22] of economic analysis[23]. Therefore, if one acknowledges that economy is somewhat embedded in social relationships, one must pick out in the economy the inscription of the logic that belongs to the political[24] area and value system that characterise a culture.

According to us, institution is a category which refers to the combination of different fields of society and reveals a human purpose. The laws that govern the nature and possible extent of the transfer of property rights, whether these be exclusive - in the cased of ideal private property - or relative to its functions - in the case of public property in the ancient era - make up an essential part of an institutional analysis.

Money is equally an institution in the sense that it is constituted by the rules which fix the conditions of the issuing, evalutation, circulation and releasing of debts. With this transhistorical perspective there is no *exchange*, but rather *payment,* as a social constraint which aims at releasing debts.

The institutionalist tradition demonstrates a consensus on this point. When Polanyi confirms that[25] :

“*In primitive societies, credit, through which debt is formalized, is provided originally by the reciprocity practiced within clan and neighborhood*",

---

[22] “*Oversocialised*" economics is unbearable as only a super mind could understand the logic of the whole, which is *contradictio in adjecto*. *Cf.* Hayek [1952].

[23] Granovetter [1994, p. 86] highlights the social networks that create market transactions. This legitimates A. Orlean’s assertion about another contribution of Granovetter. The study of a history of a system with the cooperation between economy and sociology would enable to remove from the indetermination relative to the nature of the final equilibrium. *Cf.* Orlean [1994, p. 31].

[24] Here"political" does not indicate the central authority of social power, assuming that this could actually have some concrete effectiveness ! Power relations can be apprehended at a local level.

[25] Polanyi [1977, p. 141].

he assimilates the original category of debt to that of gift. This could lead us to say that there is no such thing as free gift. The institution of gift constitutes the "*Invisible Hand* of primitive societies[26]. In the same way. Commons observes[27]

"*Primitive societies often have the institution of "gift" which is their method of creating debt, and they are even known to have set up a money of account."*.

However, it is right to observe that the institution of social practices is not an arbitrary procedure that arises from a pure will. Institutions express the empirical regularities of social life while taking into account causes which can be economic. Commons is making this precise point when he asserts that the "law" of supply and demand must not be abolished, but rather, utilised[28]. One must not confuse the arbitrary nature of a will that does not institute anything in a lasting way, except chaos, and the device of collective action that fits into history[29]. Actually, institutions are collective mental entities made rigid by history. As a result, institutions, as regularities of collective behaviour which create individual expectations, are the matrix of social order.

In other respects, we have attempted to show that Veblen defined *de facto* institution in this way, a factor which could unify institutionalist thought. The case of money rightly illustrates this institutionalist conception of institution. Veblen rejects the "conjectural history"[30] :

"*As instances of the use of this ceremonal canon of knowledge may be cited the "conjectural history" that plays so large a part in the classical treatment of economic institutions, such as the normalized accounts of the beginnings of barter in the transaction of the putative hunter, fisherman, and boat-builder, or the man with the plane and the two planks, or the two men with the basket of apples and the basket of nuts. Of a similar import is the characterisation of money as "the great wheel of circulation" or as "the medium of exchange". Money is here discussed in terms of the end which, "in the normal case", should work out according to the given writer's ideal of economic life, rather than in term of causal relation*".

The problem is not actually knowing exactly what money *should* be according to the pattern which represents human nature in a way that is just as abstract as utilitarian. Without any doubt, it is not so much exchange which creates money, as the development of money as a way of understanding the world which makes more and more exchanges possible[31].

B/ A few categories of substantive economy

Starting from macro-social considerations, Karl Polanyi considers the two sided nature of economy : it is partly the process of interaction between man and nature, and partly an *"institutionalised process"* insofar as the necessary livelihood of man requires the institution of certain *rigidities*[32] :

---

[26]M. Douglass [1989, p. 111].
[27]Commons [1992, p. 474].
[28]Commons [1992, p. 802].
[29]Gautier's [1992, pp. 42-52] account concerning Hume , notably on p. 43, is interesting to this respect.
[30]Veblen [1898, pp. 382-383].
[31]This view and the deliberate use of this extensive meaning of money was developed by Mitchell [1966, p. 27 & 1996].
[32]Polanyi [1977, p. 31].

"*If the material survival of men were the result of a mere fleeting chain of causation-possessing neither definite location in time or space (that is unity and stability), nor permanent point of reference (that is structure), nor definite mode of action in regard to the whole (that is function), nor ways of being influenced by societal goals (that is policy relevance) -it could never have attained the dignity and importance of human economy*".

Polanyi therefore defines empirical regularities which are fundamental to all social systems allowing the integration of economy, therefore assuring its permanence. This collective behaviour, called *"form of integration"*[33] fits into the *"supporting structures"* of society.

1- Reciprocity and Symmetry

Polanyi defines this form of integration and supporting structure in the following way[34] :

"*Members of group A could then establish relationships of mutuality with their conterparts in group B, and vice versa ; or three, four, or more groups may be symmetrical with regards to two or more axes, and the members of these groups need not reciprocate with one another but with the corresponding members of third groups toward which they stand in analogous relations. A number of families, living in huts that form a circle, might then assist their right-hand neighbors and be assisted by their left-hand neighbor in a endless chain of reciprocity without any mutuality among them*".

2 - Redistribution and Centricity

"*Redistribution designates appropriational movements toward a center and out again*"[35].

Redistribution can experience certain distinctive modalities such as "*householding*", the Greek "*œconomia*" or the roman "*familia*"[36]. In this way *"householding"* concerns a social sub-group in which redistribution functions. Here, as Polanyi maintains, we are not concerned with the first form of economic life. Only a certain advancement of agricultural techniques, allows the autonomy of a subgroup[37].

3 - Exchange and Market

In contrast to a widespread conception, isolated existences of exchange between individuals does not amount to the existence of a coherent institution, that is to say, the market[38] :

"*Acts of exchange on the personal level produce prices only if they occur under a system of price making markets, an institutional set up which is not created by mere random acts of exchange*".

---

[33]Polanyi's taxonomy is changing even if his intentions do not change. It is the unity of an idea which is interesting to us here. For the sake of detail, one can note that in 1944 writings *"redistribution"* is called "*principle of behaviour*" and in 1977's text "*forms of integration*" ; the *"centricity"* is "*institutional model*" but become "structures". It is clear that these semantic variations do not change anything. We suggest calling *"institutional model"* a special set of institutions which includes their relations to culture and historical singularities that an economic analysis must, in the first instance, overshadow. In this way the Assyrian institutional model differs from the Egyptian one, even if redistribution is a main feature of these archaic systems.

[34]Polanyi [1977, pp. 38-39].

[35]Polanyi [1957, b, p. 251].

[36]Therefore, the different sub-structures which support redistribution can be sex (the family), setting place (the village) or political power (a feudal centre).

[37]The concrete observation moreover shows that, in the case of the most primitive societies, the shortages created by natural disasters are divided up in an equal manner. In order to devise a genuine autonomy for all these subgroups, one must therefore set out more advanced techniques.

[38]Polanyi [1957, b, p. 251].

More precisely, for the exchange to be *"integrative"*, that is to say in order that exchange behaviour creates social integration, it is necessary that exchange rates are negociated and not fixed by custom or authority.

Second Part - Money As An Institution

With the publication of the *Great Transformation*, Polanyi continuously highlights the function of social integration[39] created by money throughout history. Certainly, it does not follow that the appearence and meanings of money are unchanging. The question of social integration seen from the point of view of money will be examined in the period before and after the *Big Market*.

§1/ The specificity of Archaic Monetary Institutions

A/ The breakout of the *"cattalactic triad"*

From the birth of the utopia of the "*Big Market*", the domination of money as a means of exchange entails concomitant advancements of the "commoditisation" and "monetisation" of society. But this is not always the case as money is linked to requirements prior to the "*One Big Market*". Money is a means of organising men into a hierarchy and cancelling out debt. The word "debt" here refers to a constraint of a social *i. e.* here political nature. This is why Polanyi wishes to break up the *"cattalactic triad"*, thinking of an alternative to the *"conjectural history"* of the market[40] already denounced by Veblen.

"*Cattalactically, trade, money and market form an indivisible whole* [...] *such an approach must induce a more or less tacit acceptance of the heuristic principle according to which, where trade is in evidence, markets should be assumed, and where money is in evidence trade, and therefore markets, should be assumed*".

When Polanyi disassociates the question of money —which refers to the modes of cancelling out debt— from the question of the market, Commons asserts :

"*yet historical investigations show [...] that Hawtrey's logical foundation, Debt, is also historically the starting point of an economic history which is not a romance.* [...]*It needs only Knapp's distinction of unrealeasable and releasable debts [...] negotiability, and legal tender, to bring about an economic theory which not only unifies production with credit but also history with logic*"[41].

Money, as a rule, is independent from the market. In keeping with this institutionalist tradition, it is important to stress that money should not be regarded as a thing but as the institution which governs the issuing, evaluation, circulation and cancelling out of debts. This is why social integration, which money contributes towards fulfilling, is, from its origins, strongly impregnated with power relations. Before examining these methods of politically integrating economy, it is advisable to examine the archaic functions of money.

---

[39]The "integration" here in question can cause political oppressions.
[40]Polanyi [1957,b, p. 257].
[41]Commons [1992, p. 474].

B/Money without Market

For Polanyi, money should be divided into *"special purpose"* and "*all purpose money"*. This division corresponds to the contrast between the two states of money, the first appearing before the "*One Big Market*" and the other appearing after. In this way Polanyi succeeds in breaking up the unity of a phenomenon that the cattactic approach had believed in. It may very well be that, with the case of ancient societies, a type of money object could carry out the accounting function and another object fulfilling the payment function[42]. At times, even the possible field of payment or account is strictly specified.

The fact that money uses are instituted separately, proves the very particular nature of non-modern money. Money's submission to the singular imperatives of exchange is nothing other than a characteristic of the "*One Big Market*" institution. Two examples will be raised in order to understand how money does not have a natural vocation to create an integrative exchange. Better still, money contributes[43] to the avoidance of true money-market uses.

1/ Archaic banking

The absence of organised markets and coined money have characterised the institutional pattern of Ancient Mesopotamia[44]. In this case, the requirements of trade and bartering necessitates the use of money as a unit of account and the recording of debts which are the consequence of transactions. Banking operations are therefore a *"functional substitute"* necessary in the absence of universally recognised means of exchange. Therefore, the function of the banker is to organise clearing and to witness to the existence of debt in an era when the spoken oath was fundamental[45] :

"*In the end, there is not much to show that in Mesopotamia banking did actually prove itself an avenue to the changeover from administered trade to market trade*".

The archaic bank therefore renders modern forms of money useless. Elsewhere, it is curious to note that even when the Greeks introduce the market and coined money, banking does not develop by conforming to exchange logic. No doubt this is due to the fact that the agora is only a *"market element"* where the production goods are not exchanged. Anyway banking is reduced because of the custom of paying cash[46]. In fact, the institutional pattern of the bank of ancient Greece seems desperately rudimentary as though the specifically greek invention, the link of trade and money to the market[47], had not created the natural impetus of banking, despite the notable growth in the market trade.

---

[42]The money in question can be totally abstract. It is this that Polanyi names "*ideal unit*". However the situation can be ev□en more complex. For example, a slave could have served as a unit of account and an external means of payment ; the great local values being expressed in slaves. This signifies that a type of *ideal* slave was developed. Keynes had, in the same way cited *in his Treatise* the case of the "*average goat*" as a unit of account in Africa [Keynes, 1971, pp. 11-12].

[43]This fact can be also the result of redistribution requirements. *Cf.* Gentet & Maucourant [1991, a].

[44]Polanyi [1957, c, 15].

[45]Polanyi [1977, p. 142].

[46]*By the* nomismata. *Cf.* Polanyi [1977, p. 316].

[47]Polanyi [1977, p. 253].

A main role of *trapetzoi* is changing currencies[48]. Elsewhere, the city controls the activity of this banker who is often a slave. Polanyi underlines that the bank is a public affair and not a private one[49]. Even more fundamentally, the bank within this institutional pattern does not create money as each bank loan cannot be made except on the order of the bank depositor. Otherwise, the bank loan can be a capital investment of the bank[50].

Finally, at no time is public deficit covered by bank loans. One has to wait until the end of the Middle Ages to witness the development of such a phenomenon. This is most certainly due to a mentality which, on principle, excluded deficit, whether it be individual or public, as illustrated by the precepts of Xenophon[51]. If a deficit ever occurred, sumptuary laws were used as an expedient, as in Rome at a later date[52]. Another possibility for financing was the game on the metallic content of money which made recourse to banking useless.

2/ Coins in Classical Greece

It is usefull to show how political authority is at the heart of the value of coins[53], which means that money is in essense *fiat* money. One example, among others quoted by Polanyi, shows to what extent the regularities of market economy are difficult to bring to the fore in ancient Greece. In the same way, a city in Asia Minor, experiencing a shortage of resources and having to pay back large sums of money to mercenaries, found a strategy which alleviated the weight of debt. The rich citizens of the town were forced to lend to the city in precious metals while they received money in iron in return. The iron money was declared to have the same value as the money in silver. Thanks to this procedure, the mercenaries were paid back in cash. One observes that the money supply, internal to the City, did not rise.

Thus the hypothesis which states that a rise of global monetary circulation would be inflationary is quite simply anachronistic, insofar as one implicity assumes the existence of an interconnected market system. This is not not the case and can explain the rigidities of the ancient price system. Furthermore, it is noticeable that the citizens are still being subjected to tribal prerogatives[54] as the

---

48 exchange table was called "*trapetza*" just like the table named "*banca*", from which the term "bank" originated.

49Polanyi [1968, p. 315].

50Polanyi [1977, p. 265].

51*Ibid*. p. 268 et Nicolet [1983, p. 203]. *"It is true that financial conceptions, linked to money that is strictly metallic, forbid any other practise that the adjustment of spending and resources"*. Government deficit would not be a possibility in England and France until the XVIIth and XVIIIth centuries. This weak development of banking in its modern sense corresponds with an immersion of economy into society. C. Nicolet once again observes : *"one mentions principally economic phenomena considered from the point of view of their features or fiscal consequences"*(*cf. ibid*. p. 204). In a more general way, it does not appear that the conclusions of C. Nicolet invalidate the substantive aapproach to which *de facto*, a certain heuristic value (*cf. ibid*. p. 15 et pp. 30-37) is attributed. Certain hypotheses are corroborated by C. Nicolet's own research about the meaning of the "generosity" of lenders who are not anxious because of the absence of repayments. In fact, moneylending solidifies civil bonds. Ev□en if this interpretation is "*biased and partial*",according to C. Nicolet, it is thus useful to note that high banking is a means of superior prestige□because it creates obligees. Only then can money turn into prestige which is the the thing that is important in Rome.

52Polanyi [1977, p. 270].

53In order to show the "particularity" of ancient mind, Janssen [1975, p. 545, fn. 13] ireminds the extreme inexactedness of "intrisinc" value of the first *nomismata*.

54Polanyi [1977, p. 169]. As a result, the fact that the counterfeiting of money causes a rise in price can not be considered as evident.

Cities are able to arbitrarily reduce current money to token money and they can easily play on the fineness of monies and regulate prices.

§2/ Money as a political means of social integration

A/The case of non-modern economies

Following Tönnies, Polanyi made a sharp distinction between "*community*" and "*society*". Money, as a pure means of economic exchange is, according to Polanyi, associated to a

"*tendency to fluidity and instability*"[55].

This is the mark of a "society" based on the levelling of conditions, even if it is imaginary. On the contrary, the organic community of premodern times, is characterised by its stability. Thus, a reversal of perspectives is proposed[56] :

"*Contrary to all assumptions, the origin of fluctuating prices, not of fixed prices, is the problem for the historian of antiquity*".

Polanyi suggests a political hypothesis regarding the nature of non-modern money which takes into account these strong rigidities[57] :

"*The variety and often minute articulations of money institution thus help to achieve integration and stabilize status privileges* without the use of open force (underlined by us)".

In non-modern societies, money stability, which is at times multi-seculary is the rule while, very openly, the differentiation of money is associated to social status[58]. In this way, in the Mali empire, at around 1352, there exists a *"poor man's money"* (a fine thread of copper) and a *"rich man's money"* (a thick thread of copper). The poor could only buy goods of rudimentary consumption, while the rich could buy, not only these goods, but naturally the elite goods (such as slaves and horses). This fact has an important consequence[59] :

"*lower class status [...] is maintained by restricting living standards to the coarse food and bare necessities that native money is allowed to purchase* ".

So, the ostentatious standards of consumption are made rigid by rules that are relative to payment and prevent the eventual richness of the poor person from being converted into prestige and power.

From this moment, one can put forward a hypothesis that is related to a strange ancient rating of money interests. Strangely enough, two different rates of interest were put into practise in the mesopotamian temples. For barley and silver, rates were 20 and 33,3 %. At the same time, the loans agreed on by the temples were particular in that they were made in barley for the peasants and silver for the "citizens". Polanyi notes that if we acknowledge that, in the African manner, one money (here barley) is not able to buy the other (here silver)[60], it is perhaps not surprising that the rate of

---

[55]Polanyi [1977, p. 118].
[56]Polanyi [1977, lii].
[57]Polanyi [1977, p. 120].
[58]Polanyi [1977, p. 117];
[59]Polanyi [1977, p. 120].
[60]Polanyi [1977, p. 118].

interest of the money of low status is higher than that of the money of high status. This phenomenon may be explained by the impossibility of converting the interest of the debt expressed in a quantity of inferior goods into superior goods.

Thus, these customary rates, associated with the differentiation of the money uses, contribute to the establishment of even greater social stratification. Polanyi does not look at this point more closely, however interesting it may be, as he is more concerned sometimes with forms of social integration than forms of oppression. In fact, the crises of Mesopotomian cities from the oldest age, are due to the impossible reimbursement of debt by the dominated levels of society. Now, one can think that the higher levels of interest rates participate in the perpetuation of the state of events, from which come political troubles, moratory institutions etc. In other words, if ancient money greatly solidifies social bonds, while introducing a rigidity that has no need of *"bureaucratic control"* as asserts Polanyi, it would be right to remember the political breakdowns that characterise such a rigidity. The crises of debt in early antiquity thus allow us to understand more easily Commons's remarks :

"*Historically, it is more accurate to say that the bulk of mankind lived in a state of unreleasable debts, and that liberty came by gradually substituing releasable debts*"[61].

With modernity, the institution of credit money, which is nothing other than the effective consecration of the principle of free circulation of debt, allows us at least a possible contestation[62] of age-old hierarchies.

Therefore, according to Polanyi, non-modern money was by its nature linked quite directly to a political system. Society's submission to a selfadjusting market would not be possible without the fusion of money uses into one single use, the all purpose money. The modern and contingent idea of all purpose money is the mental product of the commodity-money ideology, which is magnificently illustrated by the reign of the gold-standard. This original metamorphosis, is only one part of the first "transformation" which leads to the selfadjusting market. But the "*Big Market*" is only an utopia[63] that causes a paradoxical movement of liberation and regulation, that is the *"double movement"*.

B/The case of modern money : the paradox of the money of the "Big Market"

It is necessary to rethink this utopia. Far from Marx and Ricardo, on the subject of the 20's, when nostalgia for the gold-standard governs, Polanyi observes[64] :

"*Whether the gold itself has value for the reason that it embodies labor, as the socialists held, or for the reason that it is useful and scarce, as the orthodox doctrine ran, made for once no difference. The war between heaven and hell ignored the money issue, leaving capitalists and*

61Commons [1992, p. 390].

62This is possible but not necessary. This will be the object of Commons ulterior reflections on monetary policy. The absence or incoherence of these will only abolish the emancipatory possibilities of pure credit money. *Cf.* Maucourant [1994].

63*Cf.* L. Dumont, "Introduction" *in* Polanyi, 1983 and Servet [1993].

64Polanyi [1957, d, p. 25].

socialists miraculously united [...] and Das Kapital *implied the commodity theory of money, in its Ricardian form*".

Polanyi, refusing to consider money as a commodity, suggests an analysis which conforms to the institutionalist conception of institution. The modern money institution, once more, expresses the impossible "enclosure" of the economy. Despite the role of private institutes in the creation of modern money, Polanyi observes the importance of its "validation by the state"[65]:

"*Now the institutional separation of the political and the economical sphere has never been complete, and it was precisely in the matter of currency that it was necessarily incomplete ; the state, whose Mint seemed merely to certify the weight of the coins, was in fact the guarantee of the value of the token money, which it accept□ed for the paiement for taxes and otherwise. This money was* not (underlined by Polanyi) *a means of payment, it was a means of exchange*".

According to Polanyi, even all purpose money cannot do without the institutional forms which are the conditions of social integration. The proof of this paradox is that the monetary policy of central banks, render the so-called automatism of the gold-standard meaningless.

The market economy is not possible with a currency that is purely a commodity. The untimely scarcity of this money would be so catastrophic that a token money becomes absolutely necessary[66]. Therefore, Polanyi adopts a non-essentialist view of money. The fact that money practices can be practised simply with symbols does not mean anything in distortion of the "true" monetary system which results from pure commodity[67]. The monetary system of the "*One Big Market*" therefore functions on two levels :

a) *An international level*, where money is a full commodity.

b) *A national level*, where a mediation functions between the space of commodity-money and the space of token or fiat money that is connected to the domestic markets. The central bank is this mediation which makes possible the coexistence of the international gold-standard and of a national credit money.

Thus, the Central Bank is at the exact point of the joining together of two logics : one is purely economic as it rests on the means of exchange, and the other is political, because it embodies the collective identity on which the means of payment is based. The birth of the Federal Reserve System, could be interpreted as the expression of a counter-movement protecting society and participating in the construction of a national identity. Paradoxically, during the era of the gold-standard which lasted the period of 1879 to 1929[68],

"*the monetary system was the strongest among the economic forces integrating the nation*".

In centralising the supply of credit[69], the institution of market by money is made possible by the Central Bank. Thus, the Bank can partly protect the national economy against deflationary forces which are created by the functionning of the gold standard[70]. Open market policy organises a fall in

---

[65]Polanyi [1957, d, p. 196]. Guttmann [1994], when analysing *the Great Transforaltion,* emphasises this fact.
[66]Polanyi [1957, d, pp. 192-193].
[67]Polanyi [1968, pp. 176-177].
[68]Polanyi [1957, d, p. 204].
[69]Polanyi [1957, d, p. 194].
[70]Thus, according to Polanyi, the creation of money is in part exogene in the gold standard regime.

price while raising the exportable surplus and liquidating marginal firms. From there, an element of rationality in the *Big Market* reduces the

"*automatism of gold standard to a mere pretence*"[71].

Thus, at the very moment when one institutes markets with the aim of establishing a pure economic regulation of society, society is protecting itself against the devastating□ effects of international money-commodity by a monetary interventionnism. This counter-movement of social "protection" which contributes towards the creation of this *"double movement",* that is so characteristic of liberal societies, shows to what point money is a fictitious commodity, even during the reign of the gold-standard.

Conclusion

Polanyi believes that the money institution is essential[72] to different societies. Whether primitive, archaic, capitalist or socialist[73] they must be thought of as being monetised[74]. In other words, Polanyi never ceases to maintain that the money and market institutions hold an important place in society, even if market, contrary to money, is a young institution of human history. The only danger lies in the desire to reduce money to a pure commodity and thinking that markets could be self-adjusting.

---

[71]Polanyi [1957, d, p. 195].

[72]This is the central to Servet [1993]. Actually, it is possible to extend Polanyi's anthropology : man, as a social being —*zoon politicon*— necessarily knows money as the institution that solidifies social relationships thanks to "*standardising and standardised*" devices. However, it is impossible to confirm, as Hodgson does, that Polanyi could have maintained that money existed in the periphery of non-modern economies. Too many of Polanyi's citations regarding money testify the contrary (see again on this subject, Maucourant [1994]).

[73]This is why socialism which makes an abstraction out of the necessity of monetary order has no viability. It is worth noting that, in the case of the decentralised socialist society desired by Polanyi, money is a means of embedding economy into society in a humanist way as a contradictory evaluation of wills are able to express themselves. This necessary to avoid the dangerous dream of a "natural economy" which is technically impossible when neither custom nor tradition produce steady lines of action. Weber [1971, pp. 110-111], may be just before Mises, notices this technical feature of money that Polanyi will never ignores

[74]If the continuation of Polanyi's thought on this question of money appears to us to be certain, the same interpretation also appears possible with regards to market. *The Great Transformation* soundly constitutes the end of market society. But the new reality does not constitute in any way the "*absence of markets*", these assuring "*freedom of consumers, to indicate shifting of demand, to influence producers' income, and to serve as an instrument of accountancy, while ceasing altogether to be an organ of self regulation*" [Polanyi, 1957, d, p. 252] and allow accounting. Polanyi never ends in his confirmation that money institution has an important place in society.

References

BERTHOUD G., L'economique en question - La position de Karl Polanyi", *Bulletin du MAUSS*, ancienne serie, 18, Juin 1986.

COMMONS J. R., *Institutional economics - Its place in political economy,* New-York : Mac Millan, 1934 ; New edition, Transaction Publishers, 1992.

DOUGLASS M., "Le don n'est pas gratuit" (introduction a l'edition anglaise de *l'essai sur le don* de M. Mauss), *La Revue du Mauss*, 2, 1989.

GAUTIER C., *L'invention de la societe civile - Mandeville, Smith et Fergusson*, Paris : PUF, 1992.

GENTET D. & MAUCOURANT J.,

a) La question de la monnaie en Egypte ancienne", nouvelle serie, 13, *la Revue du M.A.U.S.S.*, Octobre 1991, pp. 155-164.

b) "Une etude critique de la hausse des prix a l'ere ramesside", *Dialogue d'Histoire Ancienne* (108), edite avec le concours du CNRS, 17, 1, Paris-Besancon : Les Belles Lettres, 1991, pp. 13-31.

GRANOVETTER M., "Les institutions economiques sociales comme constructions : un cadre d'analyse", pp. 79-94, *in* A. Orlean ed., *Analyse economique des Conventions*, Paris : Economica, 1994.

GUTTMANN R., "The properties of international money and their consequences for the world economy", Wien, *Karl Polanyi Conference,* nov. 1994.

HAYEK F., *Scientism and the Study of Society*, Glencoe, Illinois, 1952 ; traduction partielle en francais par R. Barre sous le titre, *Scientisme et Sciences Sociales*, Paris : Plon, 1986.

HODGSON G., "Karl Polanyi (1886-1964)" *in A Bibliographical dictionary of dissenting economist", in* P. ARESTIS & M. SAWYER *(ed.),* pp. 432-438, Hants : Edward Elgard, 1992.

KEYNES J. M., *A treatise on Money-The pure theory of Money*, Mc Millan.(1°ed., 1930).

JANSSEN J., *Commodity prices during the ramessid period*, Köln: E.J Bril, 1975.

MAUCOURANT J.

a)"Monnaie et calcul economique socialiste selon Karl Polanyi : le projet d'une economie socialiste federale", *Revue europeenne des sciences sociales* (31), 96, pp. 29-46, 1993. A similar paper is translated in english in ; "An intuition of concept of *embeddedness* - the participation of Karl Polanyi in the socialist calculation debate and his first analysis of money as institution", *Centre de Recherche Auguste et Leon Walras (URA. CNRS)* , novembre 1994." (Presente a la *Fifth international Karl Polanyi Conference : "Re-Reading* The Great Transformation *: Freedom in a complex society",* 10-13 novembre 1994, Vienne, Autriche).

b)*La monnaie dans la pensee institutionnaliste (Veblen, Commons, Mitchell et Polanyi),* these nouveau regime, Universite Lyon 2, 1994.

a) "Au coeur de l'economie politique, la dette -L'approche de J. R. Commons", *La Revue du MAUSS,* 2, 1993. In english : "Commons on debt as the foundation of political economy", Working Paper, *Centre de Recherche Auguste et Leon Walras (URA. CNRS)* , avril 1993 ; presente au *Colloque annuel de* l'*History Economics Society,* Philadelphie 26-29 juin 1993.

b) "Wesley Clair Mitchell, critique paradoxal de l'utilitarisme benthamien", *Economie et Societe - Serie Œconomia -,* P. E. n°18, 12/1993, pp. 171-182.

MAYHEW A., NEALE W. C. TANDY D., "Markets in the ancient near east : a challenge to Silver's use of evidence", *Journal of economic history,* vol. XLV, 1, march, 1985, pp. 127-134.

MITCHELL W. C. ,

"The role of money in economic history", *Journal of Economic History sup. 4,* Dec. 1944, pp. 61-67.

Gold, Prices and Wages under the Greenback Standart, New York : M. A. Kelley, 1966 (1°ed. 1908).

"Money economy and modern civilization", edited and with an introduction by M. RUTHERFORD, to be issued, 1996.

NEALE W. C., "Karl Polanyi and American Institutionalism: a strange case of convergence", *inThe life and work of Polanyi,* Kari Polanyi-Levitt *ed.*, Montreal, pp. 145-151, 1990.

NICOLET C., *Rendre a Cesar - Economie et Societe dans la Rome Antique*, Paris : Gallimard, 1988.

NORTH D. C., THOMAS R. P. , *L'essor du monde occidental,* Paris : Flammarion, 1980, 228 p. ; in english : *The rise of western world,* Cambridge University Press, 1973.

ORLEAN A.,

"L'origine de la monnaie - la monnaie dans les societes holistes (2)", *La revue du MAUSS,* 15 & 16, 1992, pp. 111-125.

"Introduction", *in Analyse economique des Conventions*, A. ORLEAN *ed.* , Paris : Economica, 1994.

POLANYI K.,

"On belief in economic determism", *The sociological review,* 1947, pp. 96-112.

a) "Aristotle discovers the economy", pp. 64-94, *in* C. M. ARENSBERG, H. W. PEARSON & K. POLANYI, *Trade and Market in the early empires - economies in history and theory*, New York : the Free Press, 1957.

b) "The economy as instituted process", pp. 243-270, *in* C. M. ARENSBERG, H. W. PEARSON & K. POLANYI, *Trade and Market in the early empires - economies in history and theory*, New York : the Free Press, 1957.

c) "Marketless trading in Hammourabi's time", pp. 12-26 *in* C. M. ARENSBERG, H. W. PEARSON & K. POLANYI, *Trade and Market in the early empires - economies in history and theory*, New York : the Free Press, 1957.

d)*The Great transformation,* Boston : Beacon press, 1957. En francais*, La Grande Transformation*, Paris : Gallimard, 1983.

Primitive, archaic and modern economies, G. Dalton (ed.), Boston : Beacon Press, 1968.

The livelihood of man, New-York-San Francisco-London : Academic Press, 1977.

a) "Sozialistische Rechnungslegung", *Archiv für Socialwissenschaft und Socialpolitik* (49), 2, 1922, pp. 377-420 ; in french*,* "La comptabilite socialiste", translated by A. ROCQUE, *Cahier Monnaie et Financement, Universite Lyon 2,* 22, *1994,* pp. 50-97.

b) "Die funktionnelle Theorie der Gesellschaft und das problem der sozialistische Rechnungslegung Eine Erwiderung an Pr. Mises und Dr. Felix Weil", *Archive für Socialwissenschaft und Socialpolitik* (52), 1, pp. 218-228, 1924 ; *en anglais,* "The fonctionnalist theory of society and the problem of socialist calculability -A rejoinder to Pr. L. Von Mises and Dr. Felix Weil-", translated by Kari POLANYI-LEVITT, *Cahier Monnaie et Financement, Universite Lyon 2,* 22, *1994,* pp.115-126.

c) "Neue Erwägungen zu unserer Theorie und Praxis", *Der Kampf*, Janv. 1925 ; *en anglais,* "Some reflections concerning our theory and practice", traduit par Kari POLANYI-LEVITT, *Cahier Monnaie et Financement,* Universite Lyon 2, 22, 1994, pp. 127-137.

POLANYI M., *La logique de la Liberte*, Paris : P.U.F., 1989 ; in english; *The logic of liberty,* University of Chicago Press, 1951.

POLANYI K, ROTSTEIN A, *Dahomey and the slave trade,* University of Washnigton Press, Londres, 1966.

SERVET J.M.,

a) “La fable du troc”, *Dix-Huitieme siecle,* 26, 1994, pp. 103-115.

b) “Rencontre des imaginaires monetaires”, Seminaire du CREA (Ecole Polytechnique), sous la direction de M. AGLIETTA & A. ORLEAN, Caisse des Depats et Consignations - Association d’Economie Financiere, Paris, juin 1994.

"L'institution monetaire de la societe selon Polanyi", *Revue economique* (44), 6, Novembre 1993.

SILVER M.,

"Karl Polanyi and markets in the ancient near east : the challenge of the evidence", *Journal of economic history,* vol. XLIII, 4, dec. 1983, pp. 795-823.

"Karl Polanyi and markets in the ancient near east : reply", *Journal of economic history,* vol. XLV, 1, March 1985, pp. 135-137.

VEBLEN T.,"Why is economics not an evolutionnary science", Juillet 1898, *Quaterly Journal of economics.*

WEBER M., *Economie et Societe,* Tome I, Paris : Plon, 1971, pp. 100-110).